Why SMME shaming leads to a funding mismatch

By Alex Fraser

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Recent articles on fund-raising activities in Africa paint the picture that capital is abundant and readily available. The first seven weeks of this year have seen continued high investment levels, with start-ups raising over $1bn through 130 deals. This creates incredible optimism for many, signalling a new investment era for businesses across the African continent.

Alex Fraser, director and founder of Viridian.

While the continental boom is positive for high-growth start-ups, this does not translate into an abundance of capital for the majority of entrepreneurs in South Africa. Despite popular belief and owing to the overuse and incorrect use of the term “start-up”, most entrepreneurs are not building truly scalable, innovation-driven, high-growth ventures. They are building SMMEs.

SMEs have the potential to become “successful sustainable businesses”

Although it might not be seen as sexy to build a small- or medium-sized enterprise, we need to recognise that not only are SMMEs vital to our economy, but they can become successful sustainable businesses. Not everyone wants to give up control of their business, take on risk, grow for growth’s sake or constantly innovate. And that is okay.

If you are an SMME or working with SMMEs, how do you avoid getting caught up in the jargon? How do you paint a realistic picture of the financing landscape for South African entrepreneurs? How do we get entrepreneurs to focus on business fundamentals such as sales and acquiring customers, rather than pitching decks and applying for mismatched investment?

Demystifying small business funding

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There are myriad financing opportunities for entrepreneurs. Depending on the stage of a business and its business model, it is critical that entrepreneurs understand the terrain is vast. From government grants and equity options to loan solutions tailored specifically for SMMEs, business owners need to investigate all the possibilities beyond the venture capital (VC) and the current ‘angel’ narrative.

Yoco Capital is a great example of the array of innovative finance products available to SMMEs. The business model was born out of Yoco’s understanding of its customers - SMMEs that require working capital to make it possible to borrow capital based on their trading history, repayable as a percentage of future revenues.

Entrepreneurs need to engage on fundinng

With an ever-changing landscape of solutions, it is difficult to stay up to date and help entrepreneurs navigate this space.

As a community, we need to have some real discussions about what it means to take on an equity partner, the financial and sometimes personal responsibility of debt and the societal pressures of fund-raising as one of the few measures of success.

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This is where we need to learn from one another. Experience and lessons learnt from more established business owners can provide relevant, practical advice to those just starting their business journey.

Building a business is really hard. You don’t understand just how tough until you have done it yourself.

Let’s make it as easy as possible for new entrepreneurs and not glorify just one type of business. Let us be real about financing and what it takes to build a sustainable SMME.

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